

Daniel Cancelmi

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1 Q. And the schedule begins with AGH,
 2 then eventually reached the DVOG hospitals and
 3 the Graduate hospitals, correct?

4 A. Yes.

5 Q. Is it the case that this schedule
 6 was prepared by or at the direction of Mr.
 7 Adamczak?

8 A. We put this together almost every
 9 month. And, you know, some of the information
 10 -- well, May of '97, I either knew where some
 11 of these things were or other people knew where
 12 some of the things were.

13 It was usually prepared each month
 14 to be provided to management. As far as the
 15 source of the numbers, some of the numbers came
 16 from individuals outside of the accounting
 17 department, just due to the nature of them.

18 Q. Is that Mr. Adamczak's handwriting
 19 at the top right-hand corner?

20 A. Yes.

21 Q. Is that a note that he wrote to
 22 you?

23 A. Yes.

24 Q. Are you able to read that for us,
 25 please?

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1 Q. He had come up with \$15.3 million
 2 versus the needed 25.1 million, right?

3 A. That's what it looks like.

4 Q. Who was Mr. Moyer?

5 A. He was the finance guy related to
 6 Allegheny Valley and Forbes.

7 Q. Do you know why Mr. Adamczak was
 8 hesitant to take Forbes or Allegheny Valley
 9 cushions?

10 A. I think he didn't want to
 11 necessarily utilize the Forbes and Allegheny
 12 Valley reserves unless it was necessary.
 13 Background on that is when AHERF was in a cash
 14 crunch, the Forbes and Allegheny Valley systems
 15 were -- it had a fair amount of cash
 16 availability.

17 And there was a lot of times, at
 18 least my understanding, there were discussions
 19 about taking some cash from the Forbes or
 20 Allegheny Valley organizations. But, you know,
 21 a lot of times Moyer, he just -- since he had
 22 worked for those organizations, he just wanted
 23 to keep Forbes and Allegheny Valley stuff to
 24 just on their books.

25 Q. So is it fair to say that Mr.

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1 A. Dan, I'm hesitant to take Forbes/AV
 2 cushions because we have to, I'm not sure what
 3 that word is.

4 Q. Account?

5 A. Account to Moyer. The pencil
 6 numbers are my suggestions which total
 7 15.3 million needed. 25.1 or -- you gather
 8 rather just for the bullets.

9 Q. Bite the bullet, maybe?

10 A. Bite. That could be. Bite the
 11 bullet. Take 10 million of Graduate reserves.

12 Q. When Mr. Adamczak here referred to
 13 the \$25.1 million that was needed, that's a
 14 reference to the \$25,083,000 bad debt reserve
 15 shortfall that you calculated in your June 20th
 16 memo, correct?

17 A. I don't know if -- it could be. It
 18 probably is.

19 Q. Do you believe that what this
 20 handwriting reflects is Mr. Adamczak going
 21 through the X file schedules, seeing whether he
 22 could identify \$25.1 million of reserves that
 23 would be available to cover the bad debt
 24 reserve shortfall to DVOG hospitals?

25 A. Yes.

1 Adamczak thought he couldn't use any Forbes or
 2 Allegheny Valley reserves to transfer to DVOG
 3 because Mr. Moyer would have noticed that?

4 MR. TORBORG: Objection.

5 A. He probably wouldn't have wanted
 6 them transferred.

7 Q. He would have objected?

8 MR. TORBORG: Objection.

9 A. He would have wanted them for
 10 Forbes or Allegheny Valley.

11 Q. Was there no one at the Graduate
 12 hospitals who was in the position that Mr.
 13 Moyer had at Forbes and Allegheny Valley who
 14 could object to the use of Graduate reserves
 15 for DVOG?

16 MR. TORBORG: Objection.

17 A. Was there? Sure. There was Chuck
 18 Morrison.

19 Q. But he was also responsible for
 20 DVOG hospitals, right?

21 A. That's correct. Then there was
 22 also -- there was CFOs of the Graduate
 23 hospitals, and Matt Dowling, I think, was the
 24 CFO of all the Graduate hospitals.

25 Q. And Matt Dowling had been on Chuck

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1 These have the Bates numbers 4553, page 1,
 2 page 2 and page 3.
 3 A. Okay.
 4 Q. Is that your handwriting on each of
 5 these three pages?
 6 A. Yes.
 7 Q. And the first page is a summary
 8 page, right?
 9 A. Yes.
 10 Q. And the next two pages are the
 11 detail pages?
 12 A. Yes.
 13 Q. Is this the same typewritten
 14 schedule, X file schedule, as of June 30th,
 15 1996 and May 31st, 1997, as we saw Mr. Adamczak
 16 marking up on the next two pages, DC4554, pages
 17 1 to 2?
 18 A. It looks like it.
 19 Q. Is it the cases that on the two
 20 pages with Bates numbers DC4 553, page 2 and
 21 page 3, that you were going through the X file
 22 schedule and identifying the reserves that you
 23 then used in your July 3rd, 1997 memo, which is
 24 immediately before it in Exhibit 1094?
 25 A. Yes.

1 identify and utilize for the transfer?
 2 A. I think McConnell was involved in
 3 this. I guess based on my understanding, I
 4 guess talking to Al and Chuck Morrison. And
 5 based on the issues, what some of the reserves
 6 were for. And then how some of them weren't
 7 necessarily needed anymore. We would go
 8 through and identify which ones that would be
 9 transferred.
 10 Q. We meaning you and Al Adamczak?
 11 A. Yes.
 12 MR. RYAN: We need to pause for
 13 just a moment for another tape change.
 14 VIDEO TECHNICIAN: We are at the
 15 end of tape two of the deposition of Daniel
 16 Cancelmi on February 6, 2003. We will resume
 17 with tape three. The time is 2:29.
 18 (Brief recess.)
 19 VIDEO TECHNICIAN: The time is
 20 2:42. We are back on the record with tape
 21 number three.
 22 Q. We were looking, Mr. Cancelmi,
 23 before we broke at Exhibit 1094, which included
 24 a number of X file schedules, right?
 25 A. Yes.

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1 Q. Is it fair to say that you built on
 2 the \$15.3 million that Mr. Adamczak had already
 3 identified in his review of the X file schedule
 4 and found another \$10 million or so to get up
 5 to the \$25 million total that you needed?
 6 A. Yes.
 7 Q. So was this process of identifying
 8 the particular Graduate reserves to be
 9 transferred to DVOG a collaborative one that
 10 you and Mr. Adamczak were both involved in?
 11 A. Yes. Yeah, I've testified to that
 12 a long time.
 13 Q. If you now look at the first
 14 several pages of Exhibit 1094 with Bates
 15 numbers DC4551, pages 1 to 3. Is this a copy
 16 of the X file schedule as of June 30, 1996 and
 17 May 31, 1997, revised to reflect the reserves
 18 that you used for the transfer to DVOG
 19 hospitals?
 20 MR. TYCKO: Can you give those
 21 Bates numbers one more time?
 22 (Record repeated.)
 23 A. Yes.
 24 Q. Was anybody directing you and
 25 Mr. Adamczak in terms of which reserves to

1 Q. And the reserves that are utilized
 2 here totaled 28 or \$9 million, of which
 3 25 million was for the DVOG hospitals bad debt
 4 reserve accounts, right?
 5 A. Yes.
 6 Q. And of that total, I think just
 7 over 21 million came from Graduate, right?
 8 A. Correct.
 9 Q. And is that what you've referred to
 10 previously in your testimony as the \$21 million
 11 reserve transfer?
 12 A. Yes.
 13 Q. Was that transfer actually made on
 14 or about July 3rd, 1997, the date of the memo?
 15 A. I believe so.
 16 Q. One question I meant to ask you
 17 earlier. Relates to all the reserve transfers.
 18 When we're talking about reserve transfers
 19 here, we aren't talking about actually shipping
 20 cash back and forth, are we?
 21 A. No.
 22 Q. These are simply bookkeeping
 23 entries to establish reserves, right?
 24 A. That's correct.
 25 Q. Doesn't have anything to do with

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<p style="text-align: right;">Page 845</p> <p>1 moving real money, cash, from one entity to 2 another, right? 3 A. That's correct. 4 Q. This packet we've marked as 5 Exhibit 1094 lays out the reserves used as part 6 of the \$21 million transfer and shows which 7 reserves that AHERF believed were excess 8 remained on the books even after that transfer, 9 right? 10 A. Correct. 11 Q. And you never sat down with Coopers 12 & Lybrand with the schedules that we have here 13 in Exhibit 1094 and explained to them what you 14 were doing with these reserve transfers, did 15 you? 16 A. This exact packet? 17 Q. Yes. 18 A. I don't know if I did or not. 19 Q. You can't recall ever sitting down 20 with anyone from Coopers & Lybrand to go over X 21 file schedules, can you? 22 A. The schedules themselves? 23 Q. Yes. 24 A. I don't know. I don't know about 25 that. I don't know if I ever did. Whether</p>	<p style="text-align: right;">Page 847</p> <p>1 high-level management tool? 2 A. I mean they were used a lot. I 3 guess you could say they were useful. 4 Q. Let me mark, please, as 5 Exhibit 1095 a document with Bates numbers CLIS 6 190 to 201. 7 - - - - 8 (Thereupon, Deposition Exhibit 1095 9 was marked for purposes of 10 identification.) 11 - - - - 12 Q. Is Exhibit 1095, Mr. Cancelmi, a 13 summary of certain journal entries? 14 A. Yes. 15 Q. And the journal entries are 16 arranged by corporation number? 17 A. Yes. 18 Q. And these are the journal entries 19 that were recorded pursuant to your July 3rd, 20 1997 memo, right? And please feel free to take 21 any time you need to confirm that. 22 A. (Witness reviewing document.) 23 That's what it looks like, at least 24 on the first couple pages I looked at. 25 Q. Is it the case that the part of the</p>
<p style="text-align: right;">Page 846</p> <p>1 someone else did, I don't know. Could have. 2 Maybe not. 3 But most of the items on there, you 4 could pull any one of them. Most of them are, 5 I think it's fair to say Coopers & Lybrand was 6 aware of what the issues were related to those 7 reserves. 8 But as far as exactly what packet 9 of information was discussed with them, I can't 10 say that like this exact packet was discussed 11 with them, no. 12 Q. Okay. And just to be sure that I'm 13 understanding you right, you don't recall 14 discussing any version of the X files with 15 Coopers & Lybrand, do you? 16 A. Specifically, no. 17 Q. And these X file schedules were 18 circulated monthly to certain members of AHERF 19 management? 20 A. Yes. 21 Q. They were viewed as a useful 22 high-level management tool; is that right? 23 A. I believe so. I guess you would 24 have to ask them. 25 Q. Did you view them as a useful</p>	<p style="text-align: right;">Page 848</p> <p>1 journal entries with the ID number CTYE1 was an 2 entry to bad debt expense? 3 MR. TYCKO: Are you asking him 4 about all of the -- 5 Q. Let me start with a particular one. 6 We'll go from there. Why don't we look at the 7 second page, Bates number 191. This refers to 8 journal entries for MCP Hospital, right? 9 A. Uh-huh. 10 Q. And do you see there there's a 11 debit to general ledger account number 8401100 12 in the third row? 13 A. Yes. 14 Q. And that is described in the right 15 column as bad debt Exp.? 16 A. Yes. 17 Q. That is a debit here in the amount 18 of \$1,191,000 to the MCP Hospital bad debt 19 expense account, right? 20 A. That's what it looks like, yes. 21 Q. And on the next page we've got 22 similarly a debit to the bad debt expense 23 account at Elkins Park Hospital, right? 24 A. Yes. 25 Q. Also I'm now talking about journal</p>

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<p style="text-align: right;">Page 857</p> <p>1 Exhibit 1097 a document with Bates numbers 2 DC0896, pages 64 through 83. 3 - - - - - 4 (Thereupon, Deposition Exhibit 1097 5 was marked for purposes of 6 identification.) 7 - - - - - 8 Q. Do you recognize Exhibit 1097, Mr. 9 Cancelmi? 10 A. Yeah, I think so. 11 Q. What is it? 12 A. There's a number of documents in 13 here. One is a memo from Al to McConnell, just 14 summarizing some financial numbers for June. 15 The next page has some patient day and volume 16 admission information. Then some summary of 17 the explanation of some of the variances. 18 That's 67 to 92. 19 Q. Whose handwriting is that on 67 to 20 92? 21 A. Al Adamczak's. He's, I guess, 22 summarizing the data relating to DVOG. Then 23 69, 70, just financial statement information 24 related to the Delaware Valley or Eastern 25 Region stuff.</p>	<p style="text-align: right;">Page 859</p> <p>1 think these were one of the first set of 2 June '97 statements. And I think it was a 3 consistent issue that there was write-offs that 4 occurred. 5 Q. The variance here as shown in 6 Mr. Adamczak's memo is \$15.7 million, right? 7 A. Yes. 8 Q. And then he identifies on the next 9 page volume variance of \$8.2 million, right? 10 A. Okay. Yes. 11 Q. Top half of that page? 12 A. Yes. 13 Q. And then the remainder, the 14 variance of \$7.5 million he assigns to rate 15 variance, right? 16 A. Correct. 17 Q. That \$7.5 million figure, as you 18 understand it, is just the plug between the 19 overall \$15.7 million variance and the 20 \$8.2 million volume variance that you 21 calculated, right? 22 A. Yeah, I mean and there was -- he 23 goes through and, you know, identifies -- when 24 you have a variance in revenue, it's either 25 rate or volume. So, you know, whatever one you</p>
<p style="text-align: right;">Page 858</p> <p>1 Q. All right. If I could focus, 2 please, on the first part of the fax, which is 3 the July 18th, 1997 memo from Mr. Adamczak to 4 Mr. McConnell. 5 There are figures there for actual 6 month of June patient service revenue at the 7 five DVOG hospitals, correct? 8 A. Yes. 9 Q. And those figures correspond to the 10 June 1997 patient revenue figures shown in 11 Exhibit 1096, the statements faxed to Mr. 12 McConnell on July 16th, don't they? 13 A. I don't know. I'll verify that. 14 Q. Well, we've got 12.4 million at MCP 15 Hospital, and Exhibit 1096 it's 16 \$12,471,000 million? 17 A. That's what it looks like, yeah. 18 Q. Mr. Adamczak identifies in the 19 July 18th, 1997 memo that the actual results 20 for June in terms of DVOG inpatient service 21 revenue were significantly below budget, right? 22 A. Correct. 23 Q. Do you remember that the June 1997 24 results as initially recorded were very bad? 25 A. Yeah, I mean from, you know, I</p>	<p style="text-align: right;">Page 860</p> <p>1 start with, the difference, you know, you 2 assume is the other one. 3 So what he's saying is, here, this 4 is the other difference, you know, I guess 5 estimated to be the rate variance, and then 6 these are some of the unusual items that 7 happened during that month. 8 Q. If you could turn, please, to the 9 page with Bates number 70. 10 A. Yes. 11 Q. Do you see it's headed AHERF 12 Eastern Region combined statement of revenue 13 and expenses for the year ended June 30th, 14 1997? 15 A. Correct. 16 Q. And this is a printout of the DVOG 17 income statement for fiscal year 1997 in the 18 format used for AHERF's monthly internal 19 financial statements for the results as they 20 were initially reported, right? 21 A. I guess. I don't know the -- I 22 assume, since he's attaching it to this memo, 23 there's not a date on it, but, yeah, the next 24 page, 718. Okay, yes. 25 Q. You're looking there at the print</p>

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<p style="text-align: right;">Page 861</p> <p>1 date there, the bottom right corner of page 71, 2 right? 3 A. Right. 4 Q. Where it says July 18th, '97? 5 A. Right. 6 Q. Am I reading this right that the 7 way the results were initially reported, DVOG 8 had a \$944,000 loss for fiscal year 1997? 9 A. Yes. 10 Q. And you're aware, aren't you, that 11 in the final financial information for DVOG, 12 there's a net income reported of approximately 13 \$20 million, right? 14 A. Is that what it is? You would have 15 to show me a statement. 16 Q. Why don't we dig that out. 17 Let me hand you, Mr. Cancelmi, 18 what's previously been marked as Exhibit 58. 19 Is this a copy of AHERF's 1997 audited 20 financial statements? 21 A. Yes. 22 Q. And attached to the audited 23 financial statements for consolidated AHERF are 24 certain consolidating schedules, right? 25 A. Yes.</p>	<p style="text-align: right;">Page 863</p> <p>1 Mr. McConnell about that? 2 A. I don't believe so. I probably 3 would have been talking to Al about it. 4 Q. Did Mr. Adamczak tell you that the 5 adjustments were being made at Mr. McConnell's 6 direction? 7 A. I assume. I mean that's how the 8 process normally worked. 9 Q. Let me hand you, Mr. Cancelmi, 10 what's previously been marked as Exhibit 49. 11 Do you recognize the handwriting on the second 12 page of this exhibit? 13 A. Yes. 14 Q. Whose is it? 15 A. Looks like mine. 16 Q. And on this page, do you record the 17 original unadjusted -- 18 A. Some of them aren't mine, but most 19 of them are. 20 Q. Okay. Is there a way -- there 21 seems to be darker numbers and lighter numbers. 22 Can you identify -- 23 A. No, I can't do it based on that. 24 Looks like the Pittsburgh stuff. Doesn't look 25 like that's my writing.</p>
<p style="text-align: right;">Page 862</p> <p>1 Q. And specifically on page 28 of the 2 original document, the Bates number ending in 3 922, there's consolidating income statement 4 information for AHERF's various affiliates for 5 the year ended June 30th, 1997, right? 6 A. Correct. 7 Q. And for DVOG, the net income is 8 shown there as \$23,701,000, right? 9 A. Correct. 10 Q. And is the difference between the 11 income shown on the consolidating schedules 12 attached to the audited financial statements 13 and the net loss, as initially reported, that 14 we saw in Exhibit 1097, a series of adjustments 15 that were made to the June 1997 financial 16 statements? 17 A. Yes. 18 MR. TORBORG: Objection. 19 Q. Were those adjustments made -- 20 well, strike that. 21 At whose direction were those 22 adjustments made? 23 A. That was, my understanding, 24 McConnell. 25 Q. Did you speak directly to</p>	<p style="text-align: right;">Page 864</p> <p>1 Q. You're referring to the first row 2 by AGH and then the row by Forbes and AOC? 3 A. Right. And then Delaware Valley 4 stuff looks like mine. Most of the Graduate 5 stuff, that looks like mine. 6 Q. So I'll just focus on the DVOG and 7 Graduate information. That's your handwriting 8 mainly there; is that right? 9 A. That's what it looks like, yes. 10 Q. On this schedule are you writing 11 down the unadjusted net income or loss for 12 fiscal year 1997, and then adding certain 13 adjustments to increase income in arriving at 14 an adjusted fiscal year 1997 income? 15 A. Yes. 16 Q. Let me hand you what's previously 17 been marked as Exhibit 51. Is this your 18 handwriting on Exhibit 51? 19 A. Yes, except for I think the top to 20 the right. Or going down, like that 6/97 21 column going down, that's Chuck Lisman's 22 writing. 23 Q. But the hospitals, the indications 24 inpatient or outpatient, and the dollar amounts 25 are your handwriting?</p>

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1 Q. But the remainder is transferred to
2 DVOG and taken into income there, right?
3 A. That's correct.

4 Q. Who went through this X file
5 schedule marked as Exhibit 45 to identify the
6 reserves at the Graduate entities that could be
7 taken and transferred to DVOG?

8 A. Who went through it?

9 Q. Yeah. Who sat down with a version
10 of this X file schedule that was unadjusted as
11 of June 30th, 1997 and determined which
12 reserves to take from the Graduate entities and
13 transfer to DVOG?

14 A. I think we talked about this
15 before. There were adjustments that management
16 wanted made to the DVOG financial statements.

17 And then based on whatever the
18 issue was, if there was a reserve that was
19 available, you know, Al or myself would go
20 through, based on information we knew about or
21 heard about, and, you know, like the PFMA, we
22 would receive correspondence from, you know, a
23 number of different areas, you know, that that
24 was available, et cetera.

25 And based on that, you know, the

1 that we've marked as Exhibit 45?

2 MR. TORBORG: Objection.

3 A. I believe so. I don't know exactly
4 every single schedule where it went. It was my
5 understanding that after our department would
6 prepare it, it would go to -- Steve was there
7 at the time, and I thought he distributed it to
8 McConnell or Morrison or Dionisio. Or when Al
9 was there at the time, you know, he sent it to
10 McConnell or Morrison or Dionisio.

11 And I thought I had an
12 understanding it went to Abdelhak, but I can't
13 say for sure. I never gave it to him.

14 Q. Now, we talked a little bit earlier
15 when we were looking at Exhibit 1095 about how
16 at the same time that the journal entries were
17 made for the \$21 million transfer to DVOG bad
18 debt allowance accounts, an additional
19 \$10 million in liabilities were established on
20 the books of Graduate hospitals in the accounts
21 payable liability account, right?

22 A. Yes.

23 Q. And does this exhibit now,
24 Exhibit 45, show substantial amounts being
25 transferred out of those general AP reserve

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1 determination was made that those would be the
2 reserves that would be used.

3 Q. All right. So that's something
4 that you and Mr. Adamczak did?

5 A. Yeah. I mean it's similar to the
6 20, I think the 21, whatever that schedule was
7 you showed me a while back where he had
8 identified some of them. He would ask me to
9 identify some of them. You know, and maybe
10 other people identified some of them.

11 But, you know, this was the primary
12 schedule that had been distributed to
13 management. And, you know, they were aware of
14 the issues and what these matters related to.
15 So this was the basis, so to speak, of where to
16 look for the reserves.

17 Q. All right. When you say
18 management, you're referring here, at least in
19 the context of DVOG and Graduate, you're
20 referring to Mr. McConnell and Mr. Morrison?

21 A. Yes. This was distributed to other
22 people, though, within Allegheny is my
23 understanding.

24 Q. By this, you're referring now to
25 the X file schedule showing the reserves taken

1 accounts at Graduate, Mount Sinai and Rancocas
2 Hospitals?

3 A. Yeah, I think so. There's a line
4 for general AP reserves.

5 Q. And so that's what you were
6 testifying about earlier when you said those
7 reserves were established basically for
8 transfer to DVOG, right?

9 A. They were established for, you
10 know, AP type issues and then ultimately
11 transferred to DVOG for accounts receivable
12 issues, yes.

13 Q. When you say ultimately, I mean
14 it's a matter of days or weeks after they were
15 established, right?

16 A. Yeah. Although, I think they were
17 being evaluated before that. I can't say
18 exactly. I think that was an issue that was
19 out on the table, at least for some length of
20 time. But I don't remember exactly when.

21 Q. Now, we've just looked at a whole
22 series of exhibits that reflect the adjustments
23 made to the June 1997 DVOG financial
24 statements, right?

25 A. Correct.

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1 Q. Adjustments that included the
 2 greater part of the \$28 million reserve
 3 transfer from Graduate to the DVOG contractual
 4 allowance accounts?

5 A. Correct.

6 Q. And you don't recall, do you,
 7 providing any of these documents relating to
 8 that \$28 million reserve transfer to Coopers &
 9 Lybrand?

10 A. I don't know about any one of these
 11 particular documents. One of them may. I
 12 don't know exactly. I mean we would have to go
 13 through each one. I couldn't say a hundred
 14 percent for sure whether -- which ones were.
 15 But like I said before, certain of the
 16 components I thought had been discussed with
 17 Coopers & Lybrand, as far as reserves, what
 18 they related to and that they had been
 19 transferred.

20 Q. Let me just ask you a little bit
 21 more about that. I think you testified earlier
 22 that, unlike the \$50 million, the \$21 million
 23 reserve transfer and the \$28 million reserve
 24 transfer weren't being talked about inside
 25 AHERF in those terms at the time, right?

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1 have referred to them here in your testimony,
 2 right?

3 A. That's right.

4 Q. Let me mark, please, as
 5 Exhibit 1100 a document with Bates numbers
 6 DC8295, pages 1 to 18.

7 - - -
 8 (Thereupon, Deposition Exhibit 1100
 9 was marked for purposes of
 10 identification.)

11 - - -
 12 Q. Do you recognize Exhibit 1100, Mr.
 13 Cancelmi?

14 A. Yes.

15 Q. What is it?

16 A. It's a -- I've testified about this
 17 a lot of times before. It's a summary of
 18 various financial results for fiscal '97.
 19 Summarizes various reserves that were used in
 20 fiscal '97.

21 I think it talks about fiscal '98
 22 information in terms of forecasting for '98
 23 data. Talks about some fiscal '96 information.
 24 Some of the various reserves that were used and
 25 that type of stuff.

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1 A. That's correct.

2 Q. They weren't being conceived as a
 3 whole, right?

4 A. Correct.

5 Q. So you'd be pretty confident that
 6 during the 1997 audit, you weren't really
 7 talking to anybody, either at AHERF or at
 8 Coopers & Lybrand, about the \$21 million
 9 reserve transfer?

10 A. That's correct.

11 MR. TORBORG: Objection.

12 A. They just weren't referred to in
 13 that manner at that point.

14 Q. All right. And you wouldn't have
 15 been talking to anybody either at AHERF or
 16 Coopers & Lybrand about the \$28 million reserve
 17 transfer?

18 A. In that manner, no.

19 MR. TORBORG: Objection.

20 A. But there was adjustments that
 21 obviously people knew about these adjustments
 22 that had been made. It's just they hadn't
 23 necessarily been summarized in this 21 and 28
 24 category, the way you're referring to them.

25 Q. And the 21 and 28 is also how you

1 Q. Is that your handwriting on the top
 2 of the first page, Exhibit 1100?

3 A. Yes.

4 Q. Could you read that for us, please?

5 A. Info prepared by Al and provided to
 6 DWMc, CPM and SSA.

7 Q. Those there initials for David
 8 McConnell, Chuck Morrison and Sherif Abdelhak?

9 A. Yes.

10 Q. How do you know that this
 11 information was provided to those three
 12 individuals?

13 A. I thought, I remember Al telling me
 14 that. There would have been others, I think,
 15 here, too. Because at the time Al was putting
 16 this together and I was helping Al put this
 17 together, I believe my memory, if it's correct,
 18 was this data, Chuck Morrison and Dr. Kaye were
 19 involved in terms of analyzing the Philadelphia
 20 numbers.

21 So these documents could have gone
 22 to Dr. Kaye. Couldn't say a hundred percent
 23 for certain. But I thought Al told me that
 24 these documents at least had gone to McConnell,
 25 Morrison and Abdelhak. That's what I recall at

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<p style="text-align: right;">Page 885</p> <p>1 schedule which puts them all in one place, on 2 one sheet of paper, right? 3 A. Yeah. 4 Q. And a total surprise to you? 5 A. I guess so, yeah. I'm not sure 6 exactly what I thought at the time. 7 Q. You don't recall providing Coopers 8 & Lybrand with any of these schedules about the 9 use of cushions in fiscal year 1997, do you? 10 A. Specifically, I can't say that I 11 did. I don't know if anyone else did. They 12 may have. I don't know. I don't remember 13 specifically. But, again, these, I know these 14 were filed in the front of my monthly financial 15 year-end binder, so, you know, it's not like 16 data was hidden or anything. 17 Q. This is certainly information that 18 sheds light on the quality of AHERF's earnings 19 for fiscal 1997, doesn't it? 20 A. Yeah. 21 Q. And all this use of cushions is 22 summarized on just one page? 23 A. It's summarized on a lot of 24 different pages in a lot of different manners, 25 but --</p>	<p style="text-align: right;">Page 887</p> <p>1 The deferred HSI revenue, that 2 issue had been discussed. Medicare recapture 3 had been discussed with them. And the other 4 column, the 6 and a half, I guess I would have 5 to see what was in those components. 6 MR. RYAN: I'll move to strike that 7 answer as nonresponsive. 8 MR. TORBORG: Objection. 9 Q. The question I'm trying to ask more 10 specifically is: If this schedule, when you 11 saw all this use of cushions on one sheet of 12 paper, if this was somewhat new and surprising 13 to you to see this all put together like this, 14 wouldn't it have been a good idea to sit down 15 with someone from Coopers & Lybrand and show 16 them this exact schedule, say, look here? 17 A. Well, like I just went through and 18 explained, the issues that were outlined on 19 here, I believed the majority of them had 20 already been discussed with Coopers & Lybrand. 21 And I agree, these numbers add up 22 certain adjustments, but then there's a lot of 23 other transactions that take place in an 24 organization throughout the course of the year. 25 And you could pick out five or six of those and</p>
<p style="text-align: right;">Page 886</p> <p>1 Q. And you didn't sit down with 2 Coopers & Lybrand, as best as you can recall, 3 and say, look, here's one sheet of paper that 4 shows \$138 million in use of cushions in fiscal 5 year 1997, I just thought this is something you 6 should know? 7 A. No. Well, I was -- it was my 8 understanding they were aware of, you know, the 9 issues that are wrong here. I don't think 10 there's anything in particular that -- maybe 11 not every single component, but the bad debt 12 expense, I mean if you just go across the 13 columns, the bad debt expense, I believe they 14 were aware of that. 15 CRA settlements, I guess that 16 wasn't my area. The Graduate cushions, I can't 17 say a hundred percent every single one of them, 18 but certainly a good bit of those of my 19 understanding Coopers was aware of. 20 Temporarily restricted funds, that 21 was at AHERF. The lion's share of that 22 adjustment I believe came from Mr. Buettner 23 related to U.S. Healthcare risk contract. So, 24 again, another issue that I would have just 25 assumed they were aware of.</p>	<p style="text-align: right;">Page 888</p> <p>1 put them on a schedule. You could put down and 2 say, well, we picked up new business in, you 3 know, Montgomery County related to these six 4 new physician practices. 5 But, you know, whether you do that 6 with every single thing, we're focusing on six 7 items here, six or seven items, of which most 8 of these, based on my understanding, Coopers & 9 Lybrand was aware of them. 10 There's probably hundreds, if not 11 thousands, of other transactions that take 12 place during the course of a year that you 13 don't necessarily sit down and summarize and 14 sit down and say, hey, you know, what about 15 this? 16 So, yeah, I mean it's a number that 17 has, you know, some big numbers on it. But 18 like I said, a bad debt expense issue by and 19 large was discussed. The CRA settlements, 20 different reimbursement area. You could talk 21 to the folks in there. But Coopers & Lybrand 22 audited the cost report accounts. 23 Graduate cushions, majority of 24 those had been discussed. Temporarily 25 restricted funds, majority of that was a direct</p>

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<p style="text-align: right;">Page 889</p> <p>1 entry, my understanding, from Bill Buettner 2 related to U.S. Healthcare risk contract. 3 Deferred HSI revenue, we discussed that that 4 had been discussed. Medicare recapture was 5 analyzed also at Coopers & Lybrand. 6 Q. I believe you just said that in 7 AHERF there were hundreds of thousands of 8 transactions that are occurring in the course 9 of a given fiscal year, right? 10 A. That's correct. 11 Q. AHERF was a large organization, 12 with lots of individual components, right? 13 A. That's correct. 14 Q. Lots of things going on in the 15 modern healthcare organization in terms of 16 reimbursement and different types of payors and 17 investments and so forth, right? 18 A. Yes. 19 Q. What we see on page 5 of 20 Exhibit 1100 is a road map, which is some of 21 the more significant transactions out of the 22 hundreds of thousands of transactions that 23 occurred at AHERF in the course of fiscal year 24 1997, right? 25 A. That's correct.</p>	<p style="text-align: right;">Page 891</p> <p>1 A. Yes. 2 Q. 766 to 770? 3 A. Yes. And the previous schedules, I 4 mean we may have helped out, provided data. I 5 can't say for certain. I mean I don't know 6 what that last two pages -- oh, I'm copied on, 7 I guess I did. 8 Q. You're referring there to the 9 September 23rd, 1997 memo from Mr. Adamczak to 10 Mr. McConnell about DVOG outpatient revenue? 11 A. Right. 12 Q. Do you see on the fax cover sheet 13 Mr. Adamczak writes, attached are three 14 analysis given to Harry this morning, 10 a.m.? 15 A. Yes. 16 Q. Do you know who Harry is? 17 A. No. 18 Q. Do you know whether that's Harry 19 Edleman? 20 A. I don't know. 21 Q. Was -- 22 A. I heard the name Edleman. I'm not 23 sure I remember what his first name was. 24 Q. Was there anyone who worked in 25 finance at AHERF named Harry?</p>
<p style="text-align: right;">Page 890</p> <p>1 MR. TORBORG: Objection. 2 Q. But it's a road map you didn't 3 provide to Coopers & Lybrand, right? 4 A. I don't remember specifically 5 providing. Whether someone else did, very well 6 could be. 7 Q. Let me mark, please, as 8 Exhibit 1101 a document with Bates numbers 9 DBR-AA 8757 to 72. 10 - - - - 11 (Thereupon, Deposition Exhibit 1101 12 was marked for purposes of 13 identification.) 14 - - - - 15 Q. Now, Exhibit 1101 appears to be a 16 fax from Al Adamczak to Sherif Abdelhak. Do 17 you see that? 18 A. Yes. 19 Q. Are you familiar with this fax or 20 with any of its contents, Mr. Cancelmi? 21 A. I may have seen this before. I 22 can't say for certain. Although, schedules on 23 8766, there's schedules that we've prepared. 24 Q. These are schedules that Robin 25 Schaffer prepared?</p>	<p style="text-align: right;">Page 892</p> <p>1 A. I'm sure there was someone. Not 2 that I recall offhand, to be honest with you. 3 MR. TYCKO: Can we take a short 4 break? 5 MR. RYAN: Sure, that would be 6 great. 7 VIDEO TECHNICIAN: The time is 8 3:46. We are going off the record. 9 (Brief recess.) 10 VIDEO TECHNICIAN: The time is 11 4:04. We are back on the record. 12 Q. Let me mark, please, as 13 Exhibit 1102 a document with Bates numbers 14 DC6130, pages 1 to 3. 15 - - - - 16 (Thereupon, Deposition Exhibit 1102 17 was marked for purposes of 18 identification.) 19 - - - - 20 Q. Do you recognize Exhibit 1102, Mr. 21 Cancelmi? 22 A. Yes. 23 Q. Is this a Graduate System 24 restructuring schedule prepared by Mr. Lisman 25 and provided to you?</p>

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1 the April 14th, 1997 memo, which we had marked
 2 as Exhibit 8.
 3 A. I'm sorry, Exhibit 8?
 4 Q. Yes. This was one of the earlier
 5 exhibits we used today.
 6 A. Got it.
 7 Q. If you turn, please, to page 2 of
 8 Exhibit 8, on the bottom under the heading,
 9 allocation of reserves, the schedule shows
 10 there that \$10 million of the initial
 11 \$50 million was allocated to Hahnemann
 12 Hospital, right?
 13 A. Yes.
 14 Q. And that's consistent with
 15 Hahnemann's portion of the \$50 million reserve
 16 transfer being adjusted on the increase or
 17 decrease in cash flow changes in receivables
 18 line on the combining statement of cash flows
 19 for the year ended June 30th, 1997, right?
 20 A. I'll take your word about the math.
 21 Q. Why don't we just look at one more.
 22 Why don't we take Bucks County Hospital. Bucks
 23 got allocated \$7 million of the initial
 24 \$50 million, right?
 25 A. Yes.

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1 A. Roughly, yes.
 2 Q. And if we turn to page 38 in
 3 Exhibit 58, the combining statement of cash
 4 flow, we instead see a decrease of \$120,000 on
 5 the combining statement of cash flows for Bucks
 6 County Hospital for the decrease in cash from
 7 changes in receivables, right?
 8 A. Yes.
 9 Q. And the difference between the
 10 amount that we would expect to see by comparing
 11 the combining balance sheets as of the two
 12 dates and the amount that we actually see in
 13 the combining statement of cash flows is
 14 exactly \$7 million, right?
 15 A. I assume the math works, yes.
 16 Pretty close.
 17 Q. And that's Bucks County's
 18 \$7 million portion of the \$50 million initial
 19 reserve transfer, right?
 20 A. That's probably the majority of it.
 21 You could have other non cash items in there.
 22 Q. I will represent to you I've gone
 23 through for each of the five DVOG hospitals and
 24 done the comparison --
 25 A. Right.

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1 Q. So if we start here on page 23 of
 2 Exhibit 74, the combining balance sheet as of
 3 June 30th, 1996, Bucks has \$17,12,000 in net
 4 patient accounts receivable, right?
 5 A. Uh-huh. Yes.
 6 Q. An additional 43,000 in grants and
 7 other receivables, right?
 8 A. Yes.
 9 Q. For a total of \$17,055,000?
 10 A. Yes.
 11 Q. And if we turn to page 35 in
 12 Exhibit 59, the 1997 audited financial
 13 statements, we see that Bucks County Hospital
 14 is shown as having \$10,158,000 in patient net
 15 accounts receivable at June 30th, 1997, right?
 16 A. Right.
 17 Q. And an additional 17,000 in grants
 18 and other receivables, right?
 19 A. Right.
 20 Q. For a total of \$10,175,000, right?
 21 A. Correct.
 22 Q. And so if we take the \$17,055,000
 23 from June 30th, 1996 and subtract the
 24 \$10,175,000 from June 30th, 1997, we would
 25 expect to see a decrease of \$6,880,000, right?

1 Q. -- we've done. And in each case,
 2 the variance between what you would get by
 3 comparing the balance sheet amounts as of the
 4 two dates and the amount that, in fact, is
 5 shown on the cash flow statement, corresponds
 6 to the dollar to the -- to that hospital's
 7 portion of the initial \$50 million reserve
 8 transfer.
 9 A. That makes sense.
 10 Q. And that's consistent with the
 11 schedule you prepared in Exhibit 1103, which
 12 was a monthly cash flow analysis through
 13 May 31st, 1997, where you had similarly made
 14 this adjustment for the \$50 million non cash
 15 reserve transfer, right?
 16 A. Yes.
 17 Q. Now, by the time the books were
 18 finally closed on, or as of June 30th, 1997,
 19 there had been an additional \$21 million non
 20 cash reserve transfer from the Graduate
 21 hospitals to the DVOG hospitals, right?
 22 A. Correct.
 23 Q. And the same logic that led you to
 24 deduct the \$50 million non cash reserve
 25 transfer from the change in accounts receivable

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1 should also have led you to deduct the
 2 \$21 million, correct?
 3 A. I don't think we did that.
 4 Q. I know you didn't do that. I'm
 5 asking whether the logic that led you to deduct
 6 the \$50 million should have also led you to
 7 deduct the non cash \$21 million reserve
 8 transfer into the same DVOG bad debt allowance
 9 account?
 10 A. I'm not sure if we focused on that
 11 or not. Although, now that I think about it,
 12 the 50 was transferred to DVOG before Graduate
 13 hospitals entered the AHERF system; whereas,
 14 the other reserves were transferred after they
 15 came into the AHERF system.
 16 When you do a cash flow statement,
 17 when you have an acquisition, when you're
 18 fluxing balances, you exclude accounts that
 19 were acquired as part of an acquisition.
 20 So say you acquire a hospital that
 21 has \$10 million receivables and your
 22 receivables go up 15 million. 10 of the 15
 23 relates to acquisition, so you sort of strip it
 24 out.
 25 So maybe the logic was that since

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1 preparing a cash flow statement for an
 2 organization that's had acquisitions during the
 3 fiscal year at issue, there's a row on the cash
 4 flow statement for the changes related to
 5 business combinations, right?
 6 A. That's part of it. You have to
 7 strip it out of each line, too.
 8 Q. You have to strip it out of each
 9 line and put it into its own separate line,
 10 right?
 11 A. Yes.
 12 Q. Now, by contrast, if we look back
 13 at the DVOG combining statement of cash flows
 14 we were on before, on page 38, same exhibit,
 15 there weren't any significant acquisitions or
 16 dispositions within DVOG during fiscal year
 17 1997, were there?
 18 A. Within DVOG, no.
 19 Q. And that's why when we look here on
 20 the statement of cash flows from operating
 21 activities, there's activity in the net assets
 22 balances related to business combinations only
 23 at Allegheny University Health and Sciences,
 24 right?
 25 A. Right.

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1 they were already in the AHERF system when
 2 those reserves were transferred, you wouldn't
 3 pull that effect out; whereas, the 50 was
 4 transferred before the Graduate hospitals came
 5 into the AHERF system.
 6 Q. To follow up on something you just
 7 said, let me ask you to turn, if you would, in
 8 Exhibit 58, the 1997 audited financial
 9 statements, to the consolidated statement of
 10 cash flows on page 5.
 11 A. Yes.
 12 Q. All right. This is the statement
 13 of cash flows for the consolidated AHERF
 14 organization, right?
 15 A. Yes.
 16 Q. Do you see there, I think it's the
 17 fifth item down, one of the adjustments to
 18 reconcile the changes in net assets to net cash
 19 provided by operating activities is net assets
 20 balances related to business combinations.
 21 A. Yes.
 22 Q. In the amount of \$42,669,000?
 23 A. Yes.
 24 Q. Now, that's an entry for what you
 25 were talking about just now, that when you're

1 Q. And that's a reflection of the
 2 transfer of ASRI into AUHS during fiscal year
 3 1997, right?
 4 A. ASRI Singer, yes.
 5 Q. At the DVOG hospitals that I'm
 6 trying to focus on now, there's no entry,
 7 there's just a dash, right?
 8 A. Right.
 9 Q. So in preparing the DVOG combining
 10 statement of cash flows, at least as it relates
 11 to the DVOG hospitals, because there's no
 12 acquisition or disposition activity at those
 13 hospitals during the fiscal year, the date of
 14 entry of the Graduate hospitals into the AHERF
 15 system isn't really relevant, is it?
 16 I mean that would only be relevant
 17 to a Centennial or Graduate statement of cash
 18 flows.
 19 A. I can't remember if we analyzed
 20 this or not. The 50 were pulled out, I think,
 21 because those reserves were transferred before
 22 the Graduate hospitals came in the AHERF
 23 system.
 24 I'm not sure that the other
 25 reserves that were transferred were evaluated,

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<p style="text-align: right;">Page 921</p> <p>1 or if they were evaluated, it was because there 2 was no adjustment made for those, maybe because 3 those reserves were already in the AHERF's 4 consolidated financial statements as of 5 May 1st, and they were transferred subsequent 6 to that.</p> <p>7 And, therefore, on a consolidated 8 basis, it didn't impact cash flow, so it all 9 netted out, because they were all being, I 10 guess, transferred between categories within 11 the cash flow from operations.</p> <p>12 So cash flow from operations 13 wouldn't have been impacted by that, because it 14 was all transfers subsequent to the hospitals 15 being in AHERF. And all the transfers were 16 between accounts within the operating cash flow 17 section of the cash flow statement.</p> <p>18 But the 50 million reduced 19 receivables on the consolidated financial 20 statements, because those reserves came into 21 the system before the Graduate hospitals did. 22 So that you would have to make a cash flow 23 statement adjustment for that. Non cash 24 adjustment for that.</p> <p>25 Q. Is it correct, though, that with</p>	<p>1 have -- let's say you wrote off a hundred 2 dollars of accounts. The top of the statement 3 would have had a big bracket, negative a 4 hundred. Reserves get transferred over, say a 5 hundred dollars of reserves. Your receivables 6 go down. It's a source of cash. Negative 7 hundred, positive hundred, nets to zero.</p> <p>8 Which would be the case, because 9 you didn't receive any cash for those 10 transactions. So I don't believe that method 11 of that logic you're proposing would be right.</p> <p>12 But I have to think about it some more and make 13 sure that's right.</p> <p>14 That's my knee jerk reaction to it.</p> <p>15 Because when those receivables went down, cash 16 didn't come in the door. So I guess now the 17 more I think about it even more, if we had a 18 non cash adjustment there, it would have made 19 the statement of cash flows incorrect. That's 20 my knee jerk reaction.</p> <p>21 Q. In any event, you agree that in the 22 combining statement of cash flows for DVOG for 23 the year ending June 30th, 1997, there was a 24 non cash adjustment for the \$50 million reserve 25 transfer and there was not one for \$21 million</p>
<p style="text-align: right;">Page 922</p> <p>1 respect to the DVOG combining statement of cash 2 flows, the \$50 million reserve transfer from 3 Graduate and the \$21 million reserve transfer 4 from Graduate had identical effects on the 5 change in accounts receivable at the DVOG 6 hospitals?</p> <p>7 A. I don't know. I'm trying to think. 8 You had adjustments, your P and L was reduced. 9 No, because your P and L would have had a 10 credit in it or an expense for the write-offs 11 of the account. And then the reserve gets 12 transferred over, which results in a reduction 13 of receivables, which is a source of cash, 14 which offsets the use of cash, because the 15 write-off of the accounts is in the P and L, so 16 it nets out to zero, which is a zero cash 17 impact on cash flow from operations, which it 18 was, because these were non cash write-offs.</p> <p>19 So, no, I have to think about it a 20 little bit more, and maybe you guys should 21 think about that a little more, but I don't 22 think so. Because when the accounts were 23 written off, they went to the P and L.</p> <p>24 So if you had no other transactions 25 during the course of the year, you would</p>	<p>1 of reserve transfer, right?</p> <p>2 A. That's correct, but I think, like I 3 said, my knee jerk reaction, I think that's 4 right because what I said. The accounts that 5 were part of the 21 to 28 went through P and L.</p> <p>6 And go back to my example. If you 7 write off a hundred dollars of accounts, you 8 start off at the top with negative a hundred. 9 And if your receivables went down, you would 10 have had a positive hundred to offset the 11 negative hundred to get to zero cash flow from 12 operations, which is what the case would be.</p> <p>13 If you had a non cash adjustment in 14 there, you would have shown a source of cash 15 from receivables. Or you would not have shown 16 a source from source receivables, which would 17 have resulted in a hundred dollars of cash from 18 outflow operations, and that wouldn't have been 19 the case.</p> <p>20 Again, that's my knee jerk 21 reaction. I think if you walk through the 22 logic, I don't think your heading on that would 23 be right, the more I think about it. If you 24 actually had an adjustment for that, that 25 actually could be the wrong way, doing that</p>

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1 AFFIDAVIT

2 The State of Ohio,)

3) SS:

4 County of Cuyahoga)

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8 Before me, a Notary Public in and for
9 said County and State, personally appeared
10 DANIEL CANCELMI, who acknowledged that he/she
11 did read his/her transcript in the
12 above-captioned matter, listed any necessary
13 corrections on the accompanying errata sheet,
14 and did sign the foregoing sworn statement and
15 that the same is his/her free act and deed.

16 In the TESTIMONY WHEREOF, I have hereunto
17 affixed my name and official seal at this
18 day of A.D 2003.

19

20

21

22 Notary Public

23

24

25 My Commission Expires:

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1 DEPOSITION ERRATA SHEET

2

3 RE: OFFICIAL COMMITTEE OF UNSECURED
4 CREDITORS, ETC. VS.
5 PRICEWATERHOUSECOOPERS, LLP

6 RRS File No.: 7472

7 Deponent: DANIEL CANCELMI

8 Deposition Date: FEBRUARY 6, 2003

9

10 To the Reporter:

11 I have read the entire transcript of my
12 Deposition taken in the captioned matter or the
13 same has been read to me. I request that the
14 following changes be entered upon the record
15 for the reasons indicated. I have signed my
16 name to the Errata Sheet and the appropriate
17 Certificate and authorize you to attach both to
18 the original transcript.

19

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IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF
ALLEGHENY HEALTH, EDUCATION &
RESEARCH FOUNDATION,

Civil Action

Plaintiff,

No. 00-684

vs.

PRICEWATERHOUSECOOPERS, L.L.P.,
Defendant.

Continued videotaped deposition of
DANIEL CANCELMI, called for examination under the
statute, taken before me, Jaci R. Traver, RPR,
CRR, and Notary Public in and for the State of
Ohio, at the offices of Jones Day, 500 Grant
Street, Pittsburgh, Pennsylvania, on Friday, the
7th day of February 2003 at 9:00 a.m.

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<p style="text-align: right;">Page 988</p> <p>1 APPEARANCES:</p> <p>2</p> <p>3 On behalf of the Plaintiff:</p> <p>4 Jones Day, by</p> <p>5 RICHARD WHITNEY, ESQ.</p> <p>6 North Point</p> <p>7 901 Lakeside Avenue</p> <p>8 Cleveland, Ohio 44114</p> <p>9 (216) 586-7256</p> <p>10</p> <p>11 Jones Day, by</p> <p>12 DAVID S. TORBORG, ESQ.</p> <p>13 51 Louisiana Avenue, N.W.</p> <p>14 Washington, D.C. 20001-2113</p> <p>15 (202) 879-5562</p> <p>16</p> <p>17 On behalf of the Defendant:</p> <p>18 Cravath, Swaine & Moore, by</p> <p>19 ANTONY L. RYAN, ESQ.</p> <p>20 AVRAM E. LUFT, ESQ.</p> <p>21 Worldwide Plaza</p> <p>22 825 Eighth Avenue</p> <p>23 New York, New York 10019-7475</p> <p>24 (212) 474-1296</p> <p>25</p>	<p style="text-align: right;">Page 990</p> <p>1 VIDEO TECHNICIAN: We are resuming</p> <p>2 with the deposition of Daniel Cancelmi on</p> <p>3 February 7th, 2003. The time is 9:06. You may</p> <p>4 proceed.</p> <p>5 CONTINUED EXAMINATION OF DANIEL CANCELMI</p> <p>6 BY MR. RYAN:</p> <p>7 Q. Good morning, Mr. Cancelmi.</p> <p>8 A. Good morning.</p> <p>9 Q. When we broke yesterday, I think we</p> <p>10 were looking at your May 22nd, 1997 memo marked</p> <p>11 as Exhibit 154. Do you have a copy of that?</p> <p>12 A. Yes.</p> <p>13 Q. And this is a memo in which you</p> <p>14 summarize Graduate system restructuring</p> <p>15 reserves, right?</p> <p>16 A. Yes.</p> <p>17 Q. And the total amount of reserves is</p> <p>18 about \$47 and a half million?</p> <p>19 A. No. Actually, it's 47 and a half,</p> <p>20 plus another 60 on the next page.</p> <p>21 Q. And the 60 million on the next page</p> <p>22 were recorded as part of the purchase price</p> <p>23 allocation; is that right?</p> <p>24 A. They were recorded as intangible</p> <p>25 assets. And I try to distinguish between the</p>
<p style="text-align: right;">Page 989</p> <p>1 APPEARANCES, Continued:</p> <p>2</p> <p>3 On behalf of the Defendant:</p> <p>4 Manion McDonough & Lucas, P.C., by</p> <p>5 JOSEPH F. McDONOUGH, ESQ.</p> <p>6 USX Tower, Suite 1414</p> <p>7 600 Grant Street</p> <p>8 Pittsburgh, Pennsylvania 15219</p> <p>9 (412) 232-0206</p> <p>10</p> <p>11 On behalf of the Witness:</p> <p>12 Tycko Zavareei, LLP, by</p> <p>13 JONATHAN K. TYCKO, ESQ.</p> <p>14 1300 19th Street, N.W.</p> <p>15 Suite 400</p> <p>16 Washington, D.C. 20036</p> <p>17 (202) 973-0902</p> <p>18</p> <p>19 ALSO PRESENT:</p> <p>20 Jeffrey L. Close,</p> <p>21 PriceWaterhouseCoopers</p> <p>22 Justin Wiener, Video Technician</p> <p>23</p> <p>24</p> <p>25</p>	<p style="text-align: right;">Page 991</p> <p>1 two in this memo.</p> <p>2 Q. Since you mentioned that, why don't</p> <p>3 I just show you what's previously been marked</p> <p>4 as Exhibit 35.</p> <p>5 Do you recognize Exhibit 35, Mr.</p> <p>6 Cancelmi?</p> <p>7 A. Yes.</p> <p>8 Q. This is a memo that you wrote to</p> <p>9 Mr. Morrison dated June 20th, 1997?</p> <p>10 A. Yes.</p> <p>11 Q. And does this memo summarize all</p> <p>12 the intangible assets on the Graduate entities?</p> <p>13 A. Yeah. This was an attempt to</p> <p>14 summarize the intangible assets that existed at</p> <p>15 that point in time.</p> <p>16 Q. All right. So the three reserves</p> <p>17 capitalized as an intangible asset shown on</p> <p>18 page 2 of your May 22nd memo are a subset of</p> <p>19 the larger list in the June 20th memo, right?</p> <p>20 A. Yes. I believe. Yes.</p> <p>21 Q. All right. And the third row on</p> <p>22 the June 20th memo is called net unrestricted</p> <p>23 deficit as of AHERF system entry date 5/1/97,</p> <p>24 right?</p> <p>25 A. Yes.</p>

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<p style="text-align: right;">Page 992</p> <p>1 Q. That totals \$49,585,000?</p> <p>2 A. Yes.</p> <p>3 Q. Does that reflect the amount of 4 operating losses that the Graduate entities 5 incurred between the date of their entry into 6 SDN and the date of their entry into AHERF, 7 plus the restructuring reserves that were 8 recorded on the entities during that period?</p> <p>9 A. That was their -- it was their 10 negative equity at the time they came into the 11 AHERF system, which would have included their 12 losses through time, plus those restructuring 13 costs.</p> <p>14 Q. So ultimately, all the 15 restructuring reserves set forth on the 16 attachment to your May 22nd, 1997 memo were 17 capitalized as an intangible asset, the same as 18 the purchase price allocations were, right?</p> <p>19 A. Yes.</p> <p>20 Q. So focusing for the time being on 21 the May 22nd memo, there's a total there of 22 \$47,466,000 recorded as restructuring reserves 23 while the Graduate entities were in SDN, or 24 even before they entered SDN, right?</p> <p>25 A. Yes.</p>	<p style="text-align: right;">Page 994</p> <p>1 (Thereupon, Exhibit 1114 was marked 2 for purposes of identification.) 3 - - - - - 4 Q. Do you see your handwriting on 5 parts of Exhibit 1114, Mr. Cancelmi?</p> <p>6 A. Yes.</p> <p>7 Q. Which portions are in your 8 handwriting?</p> <p>9 A. It says, Graduate, and then there's 10 bullet points going down. And then 11 osteopathic, and then where it says Workers' 12 Comp. And then the dollar amounts.</p> <p>13 Q. And the remaining handwriting in 14 the document is Mr. Adamczak's?</p> <p>15 MR. TORBORG: Objection.</p> <p>16 A. No.</p> <p>17 Q. Do you know whose it is?</p> <p>18 A. It's Steve Spargo's. Except for 19 that that one number at the top where it says 20 246-2335, I don't know whose that is.</p> <p>21 Q. If you compared this list here in 22 your handwriting at the top for the Graduate 23 hospital on Exhibit 1114 with the attachment to 24 your May 22nd memo, the list of Graduate system 25 restructuring reserves, there's some items that</p>
<p style="text-align: right;">Page 993</p> <p>1 Q. And you've broken it down into 2 reserves acquired before the SDN acquisition 3 date and reserves recorded thereafter, right?</p> <p>4 A. Yes.</p> <p>5 Q. Let me ask you first, who recorded 6 the restructuring reserves before the SDN 7 acquisition?</p> <p>8 A. Who recorded them?</p> <p>9 Q. Was it AHERF or was it the Graduate 10 Health System?</p> <p>11 A. Physically who recorded them? They 12 were recorded on the books of the Graduate 13 hospitals.</p> <p>14 Q. Who directed them to be recorded?</p> <p>15 A. Well, the Graduate people were 16 working with the AHERF people who were, I 17 guess, acting on behalf of SDN, and I guess 18 evaluating these issues.</p> <p>19 Q. And were you a part of that 20 evaluation?</p> <p>21 A. Yes.</p> <p>22 Q. Let me mark, please, as Exhibit 23 1114 a one-page document with Bates number 24 DBR-AA 42522. 25 - - - - -</p>	<p style="text-align: right;">Page 995</p> <p>1 appear to correspond between the two lists; is 2 that right?</p> <p>3 I'm looking, for instance, at the 4 first item, patient accounts greater than 180 5 days, \$3 million.</p> <p>6 A. Right.</p> <p>7 Q. And there's an NIH potential 8 payback of \$400,000, plus another \$470,000. Do 9 you see that?</p> <p>10 A. I don't see the 470. I see the 11 400.</p> <p>12 Q. Right. And then in your 13 handwritten version on 1114 it says, 471,000 14 already booked, and then the 470,000 is listed 15 on the other sheet.</p> <p>16 A. They're different issues.</p> <p>17 Q. I see, the ones --</p> <p>18 A. 471 is different than the 470.</p> <p>19 Q. Is the schedule on Exhibit 1114 a 20 rough draft that you sketched out of potential 21 restructuring reserves to record on the books 22 of the Graduate hospital before it turned into 23 SDN?</p> <p>24 A. That's what it looks like. I don't 25 remember the time when this was put together.</p>

3 (Pages 992 to 995)

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<p style="text-align: right;">Page 1072</p> <p>1 Q. But there are five Graduate 2 hospitals, right? 3 A. I guess. 4 Q. There's AGH, right? 5 A. Yes. 6 Q. AHERF the parent corporation? 7 A. Yes. 8 Q. Other Pittsburgh-based entities? 9 A. Yes. 10 Q. The Forbes Hospitals had several 11 different general ledgers, didn't they? 12 A. Yes, they did. 13 Q. And there's Allegheny Valley in 14 addition? 15 A. Yes. 16 Q. A couple there, probably? 17 A. Yes. 18 Q. So overall, we're talking about 19 maybe 20 different general ledger systems by 20 the end of fiscal year 1997, right? 21 A. It could have been -- there's -- I 22 think there was more than that. 23 Q. All right. More than 20 general 24 ledgers and there are a couple hundred accounts 25 in each, right?</p>	<p style="text-align: right;">Page 1074</p> <p>1 made through a computer interface system, and 2 then there would be others that would be made 3 manually, right. 4 A. Yes. 5 Q. And overall, in any year for the 6 AHERF system, we're talking about at least 7 hundreds of thousands of entries against the 8 general ledger system, right? 9 A. It's a lot. I have no idea how 10 much it is. 11 Q. Millions, maybe? 12 A. I have no idea. 13 Q. And certainly when you were an 14 auditor, you never reviewed millions of entries 15 in your client's general ledger system, did 16 you? 17 A. No. You didn't have to review 18 millions of journal entries. There was 19 sometimes you looked for large entries, flip 20 through journal entry books. I think there was 21 audit program steps, you would do that for 22 manual journal entries. 23 Q. And you -- 24 A. But every single journal entry 25 wouldn't have been examined.</p>
<p style="text-align: right;">Page 1073</p> <p>1 A. Uh-huh. 2 Q. So overall we're talking about 3 thousands of different accounts in the AHERF 4 general ledger system? 5 A. Yeah, if you add them up 6 collectively. 7 Q. And many of these accounts would 8 have numerous transactions during the course of 9 a given year, right? 10 A. Yes. 11 Q. Let's take, as an example, a 12 contractual allowance account. An account like 13 that would have many hundreds of transactions 14 in a year, right? 15 A. Yes, it could. 16 Q. And there would be many hundreds of 17 entries to that account right? 18 A. It could. I mean generally 19 speaking, I think you had, you know, you had a 20 standardized computer system interface that 21 went in each month, where the billing system 22 interfaced into the general ledger system. And 23 then you had manual adjustments that were made. 24 Q. So there would be certain entries 25 into the general ledger system that would be</p>	<p style="text-align: right;">Page 1075</p> <p>1 Q. And you would expect your client to 2 direct you to unusual journal entries, right? 3 A. Yes and no. It depends, you know, 4 if the issue came up. 5 Q. It would be part of an open, candid 6 and honest working relationship for the client 7 to direct the auditors to unusual journal 8 entries, wouldn't it? 9 A. Yeah, and as far as, you know, 10 certain issues, depending on what the issue 11 relates to. You know, whether everyone 12 remembers every single journal entry, I think 13 as you mentioned, there's hundreds of thousands 14 of journal entries, so to even begin to think 15 that the client sits down with the auditor and 16 goes through every single hundreds of thousands 17 of journal entries, I mean that doesn't happen. 18 Q. Looking at this page, we're still 19 on the second page of Exhibit 321, I believe 20 you testified that the reason you included this 21 page in the packet was that the balance in 22 general ledger account 1201905 for the Medicaid 23 reserve declined between April 1997 and 24 May 1997; is that right? 25 A. I put this in there to demonstrate,</p>

23 (Pages 1072 to 1075)

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<p style="text-align: right;">Page 1076</p> <p>1 you know, that, hey, this reserve had been 2 recorded in a separate account. And at that 3 time I thought we had discussed it, but what I 4 wanted to do was provide an example of 5 documentation that this item had been, you 6 know -- certainly hadn't been hidden. 7 It was in a separate general ledger 8 account. The activity had changed balance. 9 And that was the purpose of, you know, pulling 10 the data together.</p> <p>11 Keep in mind, at this point I think 12 that Coopers & Lybrand, I think, Al Adamczak 13 told me had gone to the board and suggested 14 that they weren't aware of these transactions, 15 and that the entries had been sliced and diced.</p> <p>16 And so what we were trying to do at 17 this point, I believe, is say, you know, that's 18 not the case. I mean look, I mean there's some 19 pretty, you know, open, you know, 20 documentation, separate accounts and stuff, you 21 know, it wasn't being hidden.</p> <p>22 MR. RYAN: I move to strike that as 23 nonresponsive.</p> <p>24 MR. TORBORG: Objection to the 25 motion.</p>	<p style="text-align: right;">Page 1078</p> <p>1 right? 2 A. That could be one reason. 3 Q. That the money had been paid out, 4 right? 5 A. That could be one reason. 6 Q. Somebody might also reasonably 7 infer that there had been a change in the 8 estimate of what Medicaid reserve was needed on 9 the books of the Graduate hospital during the 10 month of May, 1997, right? 11 A. That could be one. There could be 12 hundreds of different reasons. 13 Q. Did you use this schedule in the 14 cover page of Exhibit 321 to explain the \$28 15 million reserve transfer to Mr. Hope and 16 Mr. Cepielik? 17 A. Yeah, we provided this to them as, 18 you know, here's some documentation that 19 suggests that, you know, these issues were 20 certainly out on the table. And here's, you 21 know, some of the correspondence, you know, 22 that you may want to take a look at to see for 23 yourself. 24 I'll be honest with you, and I 25 think I testified to this before, that, you</p>
<p style="text-align: right;">Page 1077</p> <p>1 Q. The balance in the Medicaid reserve 2 account as shown on this excerpt from the 3 Graduate Hospital trial balance for May 31st, 4 1997, declined by \$2 million from the prior 5 month, right? 6 A. Yes. 7 Q. And there could be many reasons why 8 that Medicaid reserve balance had declined over 9 the course of the month; is that also right? 10 MR. TORBORG: Objection. 11 A. There could be -- no, they declined 12 for one reason. 13 Q. You know it declined because you 14 transferred the \$2 million of reserves to 15 Graduate, but somebody looking at this page 16 from the Graduate hospital trial balance cannot 17 determine that, right? 18 A. No. 19 Q. When you say no, you mean you agree 20 that the person can't determine that from this 21 page, right? 22 A. That's correct. 23 Q. Somebody might reasonably infer 24 that AHERF had satisfied the obligation for 25 which the Medicaid reserve was established,</p>	<p style="text-align: right;">Page 1079</p> <p>1 know, that we provided it to them. I don't 2 even really remember them spending too much 3 time or caring to receive it. It seemed like 4 they were pretty much at the point where they 5 had wrapped up their review. 6 Because I remember saying to them 7 that, well, have you had a chance to speak with 8 Chuck Morrison yet? And I think the response 9 was, who is Chuck Morrison? And just seemed 10 odd to me, since he was the chief financial 11 officer that, maybe they hadn't talked to Chuck 12 Morrison yet. But that's why I say, I thought 13 it was at the end. 14 MR. RYAN: I move to strike that as 15 nonresponsive. 16 Q. My question, Mr. Cancelmi, was very 17 simple. Did you provide this schedule to 18 Mr. Hope and Mr. Cepielik in 1998 to explain to 19 them the \$28 million reserve transfer? 20 A. Yes, and I'll go back to the answer 21 I just gave. 22 Q. And you didn't provide this summary 23 schedule or any other schedule like this to the 24 Coopers & Lybrand audit team during the fiscal 25 year 1997 audit, did you?</p>

24 (Pages 1076 to 1079)

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1 to and including the CFO, Chuck Morrison, or
 2 Spargo. And even Dionisio, who was responsible
 3 for the billing department.

4 So we would prepare the financial
 5 statements oftentimes with the data that came
 6 out of the billing system. The people would
 7 start asking questions. A lot of times we
 8 don't -- I don't know, we don't know. I mean
 9 that's not our department. You need to talk
 10 to, you know, someone in the billing
 11 department.

12 Then those guys would go and talk
 13 to people in the billing department. And, you
 14 know, then it would start going back and forth.

15 Then there was an effort to try get
 16 people to -- like the people in the billing
 17 department to share data on a more timely basis
 18 with, you know, Morrison or Spargo or whomever,
 19 and get that, so that information could get to
 20 us.

21 And, you know, at first it was
 22 pretty rocky. And then, you know, over time,
 23 the sharing of information improved and there
 24 was more of a better dialogue or sharing of
 25 data between the departments.

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Page 1142

1 information.
 2 And, you know, Greg Snow, he's
 3 above me. You know, he reports to Dionisio.
 4 You know, Spargo and Dionisio, you know, had
 5 two different departments. You know, but they
 6 both reported to, you know, McConnell. And,
 7 you know, a lot of times, I mean that was my
 8 sense that, you know, there was tension between
 9 the two groups.

10 And, you know, a lot of it was just
 11 because of what was going on. There was, you
 12 know, some of the problems that were within the
 13 billing department. And I think a lot of times
 14 they thought that, you know, we were pointing
 15 things out in a bad light and, you know, they
 16 were scrambling.

17 But the bottom line was, there was
 18 many times they had processed a lot of
 19 adjustments and hadn't necessarily advised, at
 20 least, Spargo or Morrison or McConnell.
 21 Whether or what was shared between the
 22 department from Dionisio on down, I don't know.
 23 I didn't work there.

24 I mean you could talk to a number
 25 of people up and down the patient accounting

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1 But you'd still have times where
 2 something would happen. We didn't know the
 3 answer to it. And they'd look to the patient
 4 accounting department and for the answer.

5 And to be quite frank, from their
 6 side, they thought a lot of times that, you
 7 know, hey, you guys, meaning general
 8 accounting, are making me look bad. And that
 9 wasn't the case at all. It's like, these are
 10 your numbers. I mean we just -- we don't know
 11 the answers to these questions, so they need to
 12 talk to you.

13 So I mean it was that type of
 14 information, or that type of interactions back
 15 and forth. And it got frustrating at times.

16 Q. Were there occasions when you or
 17 your colleagues in the general accounting
 18 department went to the Patient Financial
 19 Services Group and asked them for information,
 20 but didn't get the information that you
 21 requested?

22 A. There could have been. I don't
 23 know. Or there could have been a delay in
 24 getting the information. Keep in mind, you
 25 know, you have -- depends who is asking for the

1 department, a lot of people would say the same
 2 thing.

3 Q. They would say that it was often
 4 difficult to get the information they needed
 5 out of PFSG?

6 A. Well, if they worked in PFSG, I
 7 don't know if they would say that. What they
 8 would be saying is there was lot of people who
 9 felt that the billing department wasn't
 10 functioning up to par.

11 Q. And the question I guess I meant to
 12 ask was: You and your colleagues in the
 13 general accounting group often had difficulty
 14 getting the information you needed from the
 15 PFSG, right?

16 A. Sometimes. Depends what the issue
 17 was.

18 Q. Let me mark, please, as the next
 19 exhibit a one-page document with Bates numbers
 20 DC2942, page 35. This will be Exhibit 1122.

21 - - -
 22 (Thereupon, Exhibit 1122 was marked
 23 for purposes of identification.)

24 - - -
 25 Q. Do you recognize this schedule,

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1 Mr. Cancelmi?
 2 A. Yes.
 3 Q. What is it?
 4 A. It's a summary of adjustments made
 5 in Delaware Valley for the '96.
 6 Q. These are adjustments that were
 7 recorded -- strike that.
 8 These are adjustments that were
 9 recorded at year-end fiscal year 1996?
 10 A. Yes.
 11 Q. Is this your handwriting on this
 12 schedule?
 13 A. Yes.
 14 Q. And the adjustments that were made
 15 increased net income for the DVOG, right?
 16 A. Yes.
 17 Q. Is that your handwriting also at
 18 the top of the document, in the circle?
 19 A. Yes.
 20 Q. Does that say, discussed with Steve
 21 on July 24th, 1996?
 22 A. Yes.
 23 Q. Steve is Steve Spargo?
 24 A. Yes.
 25 Q. And is it the case that you and

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1 operations came back to Pittsburgh, the
 2 financial position of that organization, you
 3 know, was looked at. And based on their
 4 operating results, it was determined that there
 5 could be an adjustment made.
 6 And I can't remember if this
 7 happened in -- could have been the end of --
 8 maybe it was part of during '96 that Coopers &
 9 Lybrand raised this issue that we had this
 10 Health Partners investment that wasn't recorded
 11 on the financial statements. I believe Mark
 12 Kirstein was involved in that.
 13 Q. And is what happened that at the
 14 end of the fiscal year 1995 audit, Coopers &
 15 Lybrand raised the issue with AHERF that there
 16 was this investment in Health Partners that was
 17 not recorded on AHERF's books?
 18 A. I can't remember if it was '95 or
 19 '96.
 20 Q. But at some point in time, you do
 21 recall that Coopers & Lybrand caught this issue
 22 and brought it to the attention of AHERF,
 23 right?
 24 A. I don't know if caught is the right
 25 word. You know, Allegheny knew about this

1 Mr. Spargo discussed these year-end adjustments
 2 at the DVOG?
 3 A. Yes.
 4 Q. Mr. Spargo approved of the
 5 adjustments?
 6 A. Yes.
 7 Q. Now, do you see the first
 8 adjustment is listed as Health Partners
 9 unrecorded equity?
 10 A. Yes.
 11 Q. Do you recall what the issue was
 12 there?
 13 A. Yeah. Allegheny had an investment
 14 in this -- it was Medical Assistants HMO plan
 15 out in the Philadelphia area. It had been out
 16 there for a number of years.
 17 And sometimes the operations of
 18 that organization were profitable; other times
 19 they were not. And I guess at the time the
 20 Philadelphia operations were transferred, the
 21 accounting operations were transferred to
 22 Pittsburgh, I guess there may have been some
 23 balance or maybe it was small balance related
 24 to that investment.
 25 But at some point, after the

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1 investment. You know, Chuck Morrison provided
 2 more background on it in terms of in its
 3 beginning stages, what was recorded on the
 4 financial statements and what was not.
 5 But at some point, you know, the
 6 issue was discussed with Coopers & Lybrand
 7 about this investment; hey, look at the most
 8 recent financial statements. You know, it
 9 would suggest that you could record investment
 10 balance there.
 11 Q. AHERF accounted for its investment
 12 in Health Partners using what's known as the
 13 equity method, right?
 14 A. Yeah, I guess you could look at it
 15 like that. I think that somebody, up until the
 16 time it was recorded, I don't think anything
 17 was being recorded on a monthly basis.
 18 And then that number there, I
 19 think, was an estimate of what their
 20 proportionate share of Health Partners' equity
 21 was at that time.
 22 Q. So you took the Health Partners'
 23 equity and divided it by the proportion of
 24 Health Partners corresponding to AHERF's
 25 investment?

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1 examination at this time. I'm hopeful that we
 2 can continue an off-the-record discussion and
 3 hopefully resolve it that way.

4 VIDEO TECHNICIAN: Being there are
 5 no further questions at this time, we are going
 6 off the record. The time is 5:27.

7
 8 (Deposition adjourned.)
 9 -----
 10
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 22
 23
 24
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1 I do further certify that I am not
 2 a relative, counsel or attorney for either
 3 party, or otherwise interested in the event of
 4 this action.

5 IN WITNESS WHEREOF, I have hereunto
 6 set my hand and affixed my seal of office at
 7 Cleveland, Ohio, on this day of
 8 , 2003.
 9
 10
 11
 12
 13

14 Jaci R. Traver, Notary Public
 15 within and for the State of Ohio

16 My commission expires July 15, 2003.
 17
 18
 19
 20
 21
 22
 23
 24
 25

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1 CERTIFICATE
 2 The State of Ohio,)
 3 SS:
 4 County of Cuyahoga.)
 5
 6 I, Jaci R. Traver, RPR, CRR and
 7 Notary Public, duly commissioned and qualified,
 8 do hereby certify that the within named
 9 witness, DANIEL CANCELMI, was by me first duly
 10 sworn to testify the truth, the whole truth and
 11 nothing but the truth in the cause aforesaid;
 12 that the testimony then given by the
 13 above-referenced witness was by me reduced to
 14 stenotypy in the presence of said witness;
 15 afterwards transcribed, and that the foregoing
 16 is a true and correct transcription of the
 17 testimony so given by the above-referenced
 18 witness.

19 I do further certify that this
 20 deposition was taken at the time and place in
 21 the foregoing caption specified and was
 22 completed without adjournment.
 23
 24
 25

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1 I N D E X
 2 CONTINUED EXAMINATION OF DANIEL CANCELMI
 3 BY MR. RYAN..... 990:5
 4
 5 Exhibit 1114 was marked..... 994:1
 6 Exhibit 1115 was marked..... 1000:1
 7 Exhibit 1116 was marked..... 1003:21
 8 Exhibit 1117 was marked..... 1095:24
 9 Exhibit 1118 was marked..... 1097:3
 10 Exhibit 1119 was marked..... 1101:15
 11 Exhibit 1120 was marked..... 1107:9
 12 Exhibit 1121 was marked..... 1109:1
 13 Exhibit 1122 was marked..... 1143:22
 14 Exhibit 1123 was marked..... 1168:10
 15 Exhibit 1124 was marked..... 1179:1
 16 Exhibit 1125 was marked..... 1211:12
 17 Exhibit 1126 was marked..... 1218:19
 18 Exhibit 1127 was marked..... 1219:23
 19 Exhibit 1128 was marked..... 1222:8
 20 Exhibit 1129 was marked..... 1240:15
 21 Exhibit 1130 was marked..... 1241:19
 22
 23 AFTERNOON SESSION..... 1111:1
 24
 25 objection..... 994:15

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1 IN THE UNITED STATES DISTRICT COURT
2 FOR THE DISTRICT OF PENNSYLVANIA
3
4 THE OFFICIAL COMMITTEE OF
5 UNSECURED CREDITORS OF
6 ALLEGHENY HEALTH, EDUCATION &
7 RESEARCH FOUNDATION, Civil Action
8 Plaintiff, No. 00-684
9 vs.
10 PRICEWATERHOUSECOOPERS, L.L.P.,
11 Defendant.

12
13 Continued videotaped deposition of
14 DANIEL CANCELMI, called for examination under the
15 statute, taken before me, Michael E. Miller, CSR,
16 RPR, CRR in and for the State of Texas, at the
17 offices of Gibson, Dunn & Crutcher, 2100 McKinney
18 Avenue, Suite 1100, Dallas, Texas, on Monday, the
19 24th day of November, 2003 at 9:08 a.m.

20
21 - - - - -
22 VOLUME 5
23 - - - - -
24
25

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1	accounting rules were out there for investments.	1	A. Oh.
2	Q. (BY MR. RYAN) Fiscal year 1996 is	2	Q. -- for the allowance for doubtful
3	when AHERF adopted FAS 116 and 117 and 124?	3	accounts.
4	A. Yes.	4	A. Yes, I see that.
5	Q. I take it, though, that you don't have	5	Q. Do you know why that is? 11:39AM
6	any specific knowledge of anyone from AHERF	6	A. I don't remember offhand.
7	telling Coopers & Lybrand about this issue that	7	MR. RYAN: Let me show you a
8	apparently went back and forth with Chuck	8	document which may assist with that. Let me
9	Morrison about whether or not to record these	9	mark as Exhibit 2279 a document with Bates
10	realized gains? 11:36AM	10	numbers DC2777, pages 1 to 13. 11:39AM
11	MR. TORBORG: Object to form.	11	(Exhibit 2279 marked.)
12	A. We very well may have.	12	Q. (BY MR. RYAN) All right. Do you see
13	Q. (BY MR. RYAN) Do you actually recall	13	Exhibit 2279 is another version of the
14	that happening?	14	November 30th, 1996 financial statements for the
15	A. I don't remember specifically, no. 11:36AM	15	DVOG, but this time with a print date of 11:40AM
16	Q. Do you have any recollection of	16	December 24th, 1996, compared to the print date
17	talking to Coopers & Lybrand about this issue,	17	in Exhibit 2278 of January 19th, 1997?
18	this disagreement that went back and forth with	18	A. Yes.
19	Mr. Morrison?	19	Q. Somebody was working on Christmas Eve,
20	MR. TORBORG: Object to form. 11:36AM	20	it seems. 11:40AM
21	A. Again, I wouldn't -- I don't know if	21	And is that your handwriting in the
22	I'd call it a disagreement; but no, I don't	22	upper right-hand corner of Exhibit 2279?
23	remember a specific conversation.	23	A. Yes.
24	MR. RYAN: Let me mark, please, as	24	Q. It's a note from you to Keith?
25	Exhibit 2278 a document with Bates numbers 11:36AM	25	A. Yes. 11:40AM
	Page 1350		Page 1352
1	DC1241, pages 1 to 14.	1	Q. Who was Keith?
2	(Exhibit 2278 marked.)	2	A. Keith Reabe.
3	Q. (BY MR. RYAN) Do you recognize	3	Q. And what role did Keith Reabe play in
4	Exhibit 2278, Mr. Cancelmi?	4	generating AHERF's internal monthly financial
5	A. Looks like the financial statements 11:37AM	5	statements? 11:40AM
6	for the Delaware Valley for November '96.	6	A. He prepared the computer stuff,
7	Q. So these are financial statements for	7	whether it was Lotus or Excel -- I guess it was
8	a period two months later than those that we	8	Lotus at that point.
9	looked at in Exhibit 2275?	9	Q. So if you had changes to how you
10	A. Yes. 11:37AM	10	wanted to set up a presentation of the internal 11:40AM
11	Q. If you could turn, please, to the	11	monthly financial statements, I take it you'd
12	balance sheet, which is on Bates page 4. And if	12	talk to Keith Reabe about it?
13	you wouldn't mind comparing that to the balance	13	A. Yes.
14	sheet on Bates page 4 of Exhibit 2275, the	14	Q. All right. Could you turn, please, to
15	September 30th, 1996 financial statements. 11:37AM	15	the balance sheet in Exhibit 2279, which is on 11:41AM
16	A. 2275?	16	Bates page 3. And is that -- does that look like
17	Q. Yes, sir.	17	your handwriting where you have crossed out a
18	A. Okay.	18	disclosure in the margin of the allowance for
19	Q. And do you see that there's a change	19	doubtful accounts?
20	in the method of presentation of patient accounts 11:38AM	20	A. Yes. 11:41AM
21	receivable from Exhibit 2275 to Exhibit 2278?	21	Q. And did you write in the margin "Hide
22	A. Between November and September?	22	this"?
23	Q. Yes. Specifically, I'm referring to	23	A. Yes.
24	the fact that there's no longer a disclosure in	24	Q. Why did you want to hide the
25	the margin of the balance sheet -- 11:39AM	25	disclosure of the allowance for doubtful 11:41AM

24 (Pages 1349 to 1352)

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<p>1 accounts?</p> <p>2 A. Well, the term "hide" within the 3 computer system, that just means not to display 4 it.</p> <p>5 Q. Why did you not want to display it? 11:41AM</p> <p>6 A. Offhand, I don't remember. I'm sure 7 someone probably didn't want to have the 8 disclosure for the allowance for those time 9 periods.</p> <p>10 Q. Do you know who it was who didn't want 11:42AM 11 to have that disclosure?</p> <p>12 A. Offhand, no.</p> <p>13 Q. Who was it that you wanted to hide the 14 disclosure from?</p> <p>15 A. Well, this was around the time I -- 11:42AM</p> <p>16 MR. TORBORG: Object to form, 17 foundation.</p> <p>18 A. -- I didn't want to hide it. This was 19 around the time that the various reserves were 20 being utilized to write off accounts in the 11:42AM 21 Delaware Valley, and when they were going through 22 and writing those accounts off, they would get 23 applied against the bad debt reserve.</p> <p>24 So what you had, when you look at 25 that, is the fact that you have accounts that 11:42AM</p>	<p>1 allowance back up, right?</p> <p>2 A. Well, there was bad debt expense being 3 recorded.</p> <p>4 Q. Right. But it was being recorded to 5 budget, right? 11:43AM</p> <p>6 A. At that time, it -- it probably was at 7 that point.</p> <p>8 Q. It wasn't -- apparently, as we can see 9 here in Exhibit 2279, the bad debt expense wasn't 10 being taken in an amount large enough to build 11:44AM 11 the allowance back up to anything like the 12 previous levels, right?</p> <p>13 A. That's right. And the previous levels 14 were probably -- those bad debt reserves were 15 probably higher than maybe someone would argue 11:44AM 16 than normal because there was accounts out there 17 that hadn't been written off yet.</p> <p>18 Because if you look at the November 19 receivables compared to the June receivables, 20 they're up, but it's not significant. So even 11:44AM 21 though there was -- you look at the allowance, 22 the allowance went down by 30 million, you don't 23 see the same corresponding change in the 24 receivables. And that -- and the reason for that 25 big switch in the allowance account was because 11:44AM</p>
<p>1 are -- you have the gross account sitting in 2 receivables, you have the accounts -- before they 3 get written off, you have the reserve and the bad 4 debt reserve, and then when you write them off, 5 you take the gross account off and you apply it 11:42AM 6 against the bad debt reserve; and just due to the 7 timing of when accounts are being written off, 8 you can have a distortion of the bad debt 9 reserve, which was happening there because there 10 was accounts being taken off and applied against 11:43AM 11 the bad debt reserve.</p> <p>12 Q. So here in the portion that's being 13 crossed out, I think I can make it out. It looks 14 like it was a bad debt allowance of 20,647,000 at 15 November 30th compared to \$50,625,000 at 11:43AM 16 June 30th, right?</p> <p>17 A. Yes.</p> <p>18 Q. And that decrease was due to the 19 write-off of aged accounts that was taking place 20 in the Delaware Valley during fiscal year 1997? 11:43AM</p> <p>21 A. Yes.</p> <p>22 Q. And by this point in time, as of 23 November 30th, 1996, there hadn't been an 24 additional bad debt expense taken at the DVOG 25 hospitals in order to build the bad debt 11:43AM</p>	<p>1 they were -- started writing off older accounts 2 against the bad debt reserve.</p> <p>3 Q. And this decrease in the bad debt 4 allowance of the DVOG hospitals due to the 5 write-offs of older accounts, combined with the 11:45AM 6 fact that bad debt expense was being recorded at 7 budgeted levels, is what resulted in the bad debt 8 reserve shortfall that was growing during fiscal 9 year 1997, right?</p> <p>10 A. Yes. 11:45AM</p> <p>11 Q. And, in effect, what we see here in a 12 disclosure of the allowance for doubtful accounts 13 going down from 50 million plus at June 30th to 14 20 million plus at November 30th is a reflection 15 of that same bad debt reserve shortfall, isn't 11:45AM 16 it?</p> <p>17 A. It's a reflection that there was 18 accounts getting written off against the bad debt 19 allowance.</p> <p>20 Q. And do you recall that AHERF wanted -- 11:45AM 21 that AHERF management wanted to hide that 22 information?</p> <p>23 MR. TORBORG: Object to form and 24 foundation.</p> <p>25 A. No, I -- I don't know if I'd 11:45AM</p>

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<p style="text-align: right;">Page 1381</p> <p>1 MR. TORBORG: Object to 2 foundation -- 3 A. Not that I remember. 4 MR. TORBORG: -- and to form. 5 Q. (BY MR. RYAN) And is it the case that 12:18PM 6 in -- that as of September 24th, 1996, even after 7 you'd written this memo which in effect 8 calculated what the implications for the bad debt 9 allowance would be if management decided to write 10 off \$80 million in accounts receivable, that that 12:19PM 11 didn't lead you to believe that there should be a 12 prior period adjustment to the 1996 financial 13 statements? 14 MR. TORBORG: Object to form and 15 foundation. 12:19PM 16 A. Yeah, I don't remember the issue 17 arising regarding because these accounts are 18 being written off that there should be a prior 19 period adjustment. It may have, but I'll be 20 honest, I don't remember that. 12:19PM 21 Q. (BY MR. RYAN) That's not something 22 that you considered at the time? 23 A. I don't remember that. 24 Q. And that would be because you had an 25 understanding at the time that the bad debt 12:19PM</p>	<p style="text-align: right;">Page 1383</p> <p>1 Q. One meeting of the audit committee? 2 A. Audit committee. 3 Q. While you were at AHERF, though, you 4 did not attend meetings of the audit committee? 5 A. No. 12:20PM 6 Q. But you were aware, I take it, that 7 the audit committee would meet every year, 8 usually in October, to review and approve the 9 annual audited financial statements for AHERF, 10 right? 12:21PM 11 A. Yes, some -- generally around that 12 time frame. 13 Q. Do you remember any discussion with 14 anyone in late September or early October 1996 15 about a fact that there was this concept that had 12:21PM 16 been proposed of writing off \$80 million in older 17 patient accounts receivable and the 1996 18 statements hadn't yet gone to the audit committee 19 of the board for its approval? 20 A. Offhand, I don't. 12:21PM 21 Q. Did you ever consider taking any 22 action to bring to the attention of the audit 23 committee of the board of trustees the fact that 24 AHERF was considering writing off \$80 million in 25 accounts? 12:22PM</p>
<p style="text-align: right;">Page 1382</p> <p>1 allowance is an estimate and a change in facts or 2 circumstances after the balance sheet date 3 doesn't mean you have to go back and correct an 4 error and make a prior period adjustment, right? 5 MR. TORBORG: Object to form. 12:20PM 6 A. Yeah, depending on the fact pattern, 7 that can be true. Depending on a different fact 8 pattern, that cannot be true. So it really 9 depends. 10 Q. (BY MR. RYAN) Now, you didn't 12:20PM 11 attend -- 12 MR. TYCKO: Hold on. 13 MR. RYAN: Sorry. 14 (Conference out of the hearing of 15 the reporter.) 05:07PM 16 MR. TYCKO: Are you coming to a 17 breaking point? 18 MR. RYAN: I am. I'll stop in just 19 one minute. 20 MR. TYCKO: Okay. Fine. 12:20PM 21 Q. (BY MR. RYAN) You, I believe, didn't 22 ever attend meetings of the board of trustees of 23 AHERF, right? 24 A. Not when I was at AHERF. I think I 25 went to one meeting when I was at Coopers. 12:20PM</p>	<p style="text-align: right;">Page 1384</p> <p>1 A. Me? 2 Q. Yes. 3 A. They wouldn't know me if I hit them in 4 the head with a 2x4, so not necessarily. I just 5 didn't have interaction with them. 12:22PM 6 Q. Did you ever suggest to any of your 7 colleagues at AHERF who did attend these meetings 8 that they might want to bring that to the 9 attention of the audit committee? 10 A. I don't remember that being an issue. 12:22PM 11 I -- like I said, I don't remember there being an 12 issue that, oh, you know, it's a subsequent event 13 concern. It may have come up, but I'll be 14 honest, it doesn't stand out. You know, I think 15 my recollection was that, you know, there were 12:22PM 16 audit adjustments made at June '96 for the -- you 17 know, for the financial statements as of that 18 point in time, you know, the 17-1/2 and whatever 19 other adjustments were out there, and that was 20 the needed adjustments at that point in time. 12:22PM 21 Q. You knew, I take it, that Bill 22 Buettner from Coopers & Lybrand attended meetings 23 of the audit committee? 24 A. Yes. 25 Q. Did you consider at all between the 12:23PM</p>

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